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C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 001209

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SUBJECT: TFH01: NATIONAL PARTY ECONOMIC ADVISORS OUTLINE  
PRIORITIES

REF: TEGUCIGALPA 1192

Classified By: Amb. Hugo Llorens, E.O. 12958, 1.4(b) and (d)

¶1. (C) Summary: Members of the National Party economic team met with Embassy officers on November 24 to discuss the economic policies of the party, which led in the polls as the November 29 election approached. Job creation programs and assistance to poor families are key priorities, but the party representatives were well aware that programs of this type will only be possible if the international community resumes assistance. They expressed strong concern about the poor financial situation they were set to inherit if victorious, including domestic debt and a high civil service wage bill. They said that they hope to engage with donors immediately after the election to begin discussing reengagement and assistance priorities. The Economic Counselor told the party representatives that implementation of the Tegucigalpa-San Jose Accord remains the key to reengagement by international donors. (It was not possible to arrange a similar meeting with the Liberal Party, the other party with a realistic chance of winning the election, because its key economic advisors are senior officials of the de facto regime with which we have a no contact policy.) End summary.

¶2. (C) Members of the National Party's economic team met with embassy officers on November 24 to discuss the party's economic platform. Participants from the party included:

-- Maria Antonieta Bogran, National Party campaign manager and nominee to be presidential candidate Pepe Lobo's principal deputy;

-- Mario Canahuati, who lost to Pepe Lobo in the party's presidential primary and now serves as a party advisor;

-- Maria Elena Mondragon, former president of the Central Bank of Honduras;

-- William Chong Wong, former Minister of Finance; and

-- Marlon Tabora, campaign advisor.

Embassy participants included the Economic Counselor, economic officer, and U.S. Treasury Resident Advisor.

## Key Priorities

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13. (C) Canahuati said that, if Pepe Lobo is elected, the first priority will be to address the issue of governance. Lobo, he said, hopes to assemble a unity government including representatives of a wide variety of parties and social sectors. The party's main goals are to raise family income levels, increase employment, widen access to health and education, and improve security. Key programs in the party platform include an initiative, based on similar programs in Mexico and Brazil, to provide 10,000 Lempiras per year to families that keep their children in school (reftel) and a job creation program focused on reforestation and the construction of medical centers, schools, and highways. The party envisions that these initiatives would be carried out in partnership with the Interamerican Development Bank (IDB).

## Harsh Realities

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14. (C) After briefly outlining these aspirations, the economic team moved quickly to a discussion of the harsh realities they will face if Lobo is elected. Bogran said that the new government would have to reestablish a balance between fiscal responsibility and social responsibility. It would have to conduct an exhaustive budget review and move quickly to get debt under control (including internal debt, which escalated sharply under President Zelaya). Canahuati added that the party realized that the budget would have to

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be austere. The National Party members expressed serious concern about imprudent financial commitments of the Zelaya government that the new government would have to honor and about the high percentage of the government budget dedicated to payment of civil service salaries.

## Engaging the International Community

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15. (C) Mondragon told the Embassy staff members that reactivating the economy would be impossible without international assistance. She expressed the hope that the international donor community would engage with the new government's transition team to help kick-start new programs.

Mondragon said that the party plans to be in touch with the International Monetary Fund (IMF), World Bank, and IDB shortly after the election to discuss reengagement. She added that the country cannot afford to wait a month or two (i.e. until the presidential inauguration on January 27) to begin these discussions. Mondragon noted that some types of assistance can be initiated prior to recognition by the IMF. Bogran said that the U.S. role will be crucial. Chong Wong said that Honduras has benefited greatly from the Millennium Challenge Account (MCC) programs and that the National Party hopes for a second MCC compact.

16. (C) The Economic Counselor told the group that, while elections are an important step, they are not in themselves a solution to the political crisis. She said that the best way to ensure reengagement by the U.S. and other donors is through implementation of the San Jose-Tegucigalpa Accord. Bogran said that she agreed and noted the National Party's commitment to a unity government. (Note: As used by Hondurans, the terms "unity government" and "government of national reconciliation" refer sometimes to a pre-January 27 interim government, along the lines envisioned in the Tegucigalpa-San Jose Accord, and sometimes to a government installed after January 27 that would include representation from a wide variety of sectors. In a follow-up telephone conversation with the Economic Counselor, Tabora said that the party representatives had been referring to the latter concept. He said that the National Party remains open to the idea of a pre-January 27 government of national

reconciliation as envisioned by the Tegucigalpa-San Jose Accord if there is consensus on this issue following the December 2 vote by Congress on the restoration of President Zelaya. End note.)

#### Monetary Policy

17. (C) Asked about monetary policy, Mondragon said that it was impossible to provide specifics because the party does not have a clear picture of the current fiscal situation. In addition, much will depend on whether the new government receives external financing. She said that the government wants to increase liquidity. The currently low level of inflation will make it easier to use monetary policy to reactivate the economy.

#### Restoring Investor Confidence

18. (C) Mondragon said that the party's efforts to restore foreign investment would be centered on taking actions to increase investors' overall confidence in Honduras and its governmental institutions. A National Party government would introduce a new investment law, which Bogran emphasized would not change the rules of the game for investors but make them clearer. Canahuati said that the new government would spearhead an effort to create harmonization among the different laws so that investors would know their rights. Tabora said that the party envisioned the creation of a foreign trade institute under the Ministry of Industry and Commerce to administer trade agreements and provide continuity and stability from one administration to the next.

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#### Other Priorities

19. (C) The National Party members said that transparency and a strong stance against corruption would be important. They noted that Lobo has said that he expects all members of his government to sign an anti-corruption and transparency agreement. Decentralization to the municipalities is another key priority, including local financing for local projects, training for mayors and staffs, and technical assistance to local authorities. Chong Wong expressed appreciation for USAID's efforts in this area. The National Party members said that support for micro, small, and medium enterprises, which are the principal source of employment in the country, is another high-priority area. Other priorities highlighted by the team included developing a private insurance program for children, the disabled, and the elderly; improving tax enforcement; and strengthening the legal framework by revisiting laws that were introduced but never passed or passed but never implemented.

#### Comment

110. (C) The fact that such a high-powered group of National Party members, including the party's campaign manager, was available and willing to meet with Embassy officials at length five days before the election may be a sign of the party's confidence that its large lead in the polls will translate into an election victory. It is also a sign of how worried the party is about the possibility that international donors will decide not to reengage quickly, leaving the new government with scant resources to address the rapidly deteriorating financial situation. The group requested another meeting with the embassy shortly after the election if Lobo wins. In our discussions with the transition team of whichever party wins, we will continue to emphasize the importance of a return to constitutional order as the key to international recognition and resumption of assistance.

